

Reforestation Tax Credit and Amortization

Tennessee Department of Agriculture, Division of Forestry

Landowners may qualify for a 10% tax credit on reforestation costs of up to \$10,000 (maximum \$1,000 credit) and amortization (deduction from gross income) of up to \$9,500 of the remainder over a period of seven years.

To qualify, the landowner must plant at least one acre, and the purpose must be to make money by selling timber.

Compute the amount allowable to amortize by subtracting half of the credit taken from the total cost (up to \$10,000). Divide this amount by seven to get the annual payment. However, due to the “half-year convention”, you must claim half of one of the seven payments the first year, and the other half in year eight.

Example:

You spend \$4,000 to reforest a tract. You receive a $4,000 \times .1 = \$400$ tax credit

Subtract one-half of the credit (= \$200) from \$4,000 = \$3,800

Divide \$3,800 by 7 years = \$542.86

The first and last years are “half years”, so divide one payment by 2 = \$271.43

So the first year you claim a deduction of \$271.43; in years 2 through 7 you claim \$542.86, and in the last year you claim \$271.43

If you receive cost share money for reforestation and include it as income, you can count it as a reforestation cost when you figure the tax credit and amortization. You may elect to exclude cost share payments from your income, but if you do you can't count them in that regard.

The amount you can exclude from income is determined as follows

1. select the higher of (a) the 3-year average of income/a defensible interest rate; (b) $\$2.50 \times$ the number of acres/ the interest rate
2. compare this higher number to your cost share payment; the lesser of those two is the amount you can exclude

Persons qualifying as “businesses” must pay self-employment tax on cost share payments; investors do not have to.

Claim the tax credit on IRS Form 3468, Computation of Investment Credit. Carry the credit allowed over to Form 1040 line 50 and complete Form T Schedule E, Reforestation and Timber Stand Activities.

Include a description of the species planted, the amount planted, the reason for planting, the date(s), and the location.

Enter the amount amortized on any given year on Form 4562, Depreciation and Amortization.

Investors carry this over to Form 1040 line 32 as an adjustment to gross income (it is not entered on Schedule A as an itemized deduction). Write “reforestation” on line 32.

Sole proprietors carry over the amortized amount to Form 1040, Schedule C (Business Schedule) part V, “other expenses”. Enter “carried over from Form 4562.” Farmers carry over to Form 1040, Schedule F, Part II, “other expenses”.

This bulletin is educational in nature and is not intended to serve as specific tax preparation advice or as a substitute for the services of a tax accountant.